



PUBLIC DISCLOSURE

December 03, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Federal Savings & Loan Association
Charter Number 705957

903 Jackson Ave
Pascagoula, MS 39567-4346

Office of the Comptroller of the Currency

3838 North Causeway Blvd.
Suite 2890
Metairie, LA 70002-8105

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

Summarize the major factors supporting the institution's rating.

- First Federal's average loan-to-deposit ratio is excellent relative to the institution's size, competition, and financial condition.
- A majority of loans originated by the institution was within its assessment area (AA) and is considered adequate.
- Lending to borrowers of different income levels, especially to low- and moderate-income borrowers is reasonable in light of the AA's demographics and peer comparisons.
- The geographic distribution of loans, especially in low- and moderate-income census tracts exceeds that of other Home Mortgage Disclosure Act (HMDA) lenders and is deemed good.
- The institution has not received any CRA-related consumer complaints since the previous CRA Performance Evaluation.

SCOPE OF EXAMINATION

The assessment of First Federal's CRA performance was evaluated utilizing the Interagency Small Institution CRA Examination Procedures, which require the analysis of the institution's primary lending product.

The review period covered loans originated over a 33-month period. Performance was assessed based on a review of HMDA reportable loans originated from January 1, 2011 until September 30, 2013. The 2011 lending activity was analyzed utilizing the 2000 Census data, while the 2012 and 2013 lending activities were analyzed utilizing the 2010 Census data. This Performance Evaluation (Report) contains analysis and tables for both periods. A separate data integrity HMDA review was conducted in June 2013 and did not disclose any significant errors.

A community agency was contacted to obtain feedback on the area's demographics and perceived credit needs. The examiner was told that general banking and credit needs in the County of Jackson include affordable housing for low- and moderate-income individuals.

DESCRIPTION OF INSTITUTION

The institution (First Federal or the Institution) is a federally chartered mutual thrift with total assets of \$275 million as of September 30, 2013. The asset portfolio consists mainly of mortgage loans and mortgage pool securities. First Federal operates the main office located in Pascagoula and five full service branch offices within Jackson County, Mississippi. All six branches are located in the Pascagoula, Mississippi metropolitan statistical area (MSA) within Jackson County. Branches are located in the cities of Pascagoula, Moss Point, Gautier, Ocean Springs, Vancleave, and Hurley, Mississippi. Branches are located in two moderate-income, three middle-income, and one upper-income geographies. There is a 24-hour automated teller machine (ATM) located at each branch. An off-premise ATM is located in a moderate-income geography in Pascagoula.

First Federal's primary business strategy is to originate and retain conventional first and second lien real estate loans, secured by one-to-four family dwellings. As of September 30, 2013, assets primarily consisted of residential mortgage loans totaling \$222 million (80.7% of total assets) and mortgage-backed securities (MBSs) totaling \$9.2 million (3.3% of total assets). First Federal remains a traditional thrift lender with a conservative, low-risk operating strategy that focuses on the origination of permanent mortgage loans secured by one- to four-family dwellings. During the review period, loans were funded through local deposits and Federal Home Loan Bank (FHLB) advances. As of September 30, 2013, outstanding FHLB advances totaled \$74.6 million, and deposits decreased from \$183.3 million to \$176.6 million since the previous examination. First Federal was rated "Satisfactory" in its prior CRA Performance Evaluation, dated November 30, 2010.

Economic or Legal Constraints

First Federal has no legal or regulatory impediments identified that would affect its lending activities or impede the institution's ability to meet the credit needs within its AA.

DESCRIPTION OF JACKSON COUNTY ASSESSMENT AREA

First Federal has one AA defined as a portion of the Pascagoula, Mississippi MSA. The entire MSA is too large for the institution to serve; therefore, First Federal has defined its AA as all of Jackson County. There are 28 census tracts in the AA, including one low-income, seven moderate-income, fifteen middle-income, and five upper-income geographies. The table below depicts demographic and economic characteristics of Jackson County utilizing the U.S. Census data (except for unemployment rates) of 2000 and 2010:

Table 1, Demographic and Economic Characteristics of the Assessment Area		
	2000 Census Data	2010 Census Data
Population	131,420	139,668
Number of Families	35,921	35,346
Number of Households	47,753	49,137
Geographies		
Number of CTs	29	28
# Low-Income CTs	1	1
# Moderate-Income CTs	8	7
# Middle-Income CTs	16	15
# Upper-Income CTs	4	5
Median Family Income(MFI)		
HUD-Adjusted MFI	57,700	58,400
Economic Indicators		
Unemployment Rate	2010 (9.5%)	2013 (8.8%)
Median Housing Value	\$76,609	\$128,149
% Households Below Poverty Level	12.93	13.59

Source: 2000 & 2010 U.S. Census Data.

Jackson County is the third largest county in the state of Mississippi with the city of Pascagoula, as the county seat. Jackson County is located on the Mississippi Gulf Coast, 100 miles from New Orleans and 50 miles from Mobile, Alabama, along Interstate 10. According to the Jackson County Economic Development Foundation, Inc. (serves as a gateway to development sites, university based research and development training) the top major projects in Jackson County during 2013 were as follows:

- **MS Gulf Coast Community College** launched its Strategic Plan 2020 with focus on teaching, learning, student success, and community engagement and partnerships. This was the only Mississippi community college to experience an enrollment increase in 2013.
- **The Port of Pascagoula** is a major economic generator for Jackson County, as more than 28 million tons of cargo move through the public and private terminals each year. The Port provides 23,000 direct jobs and is vital to the economic well-being of the county.
- **Chevron’s Pascagoula Refinery** is the company’s largest wholly owned petroleum refinery. It employs approximately 1,500 people and anywhere from 1,000 to 5,000 contractors each day.

- **Hwy 611 Fly-over** is an important highway interchange project consisting of road widening and an overpass, allowing large trucks and other industrial traffic to avoid a busy intersection with Hwy 90 and a CSX railroad crossing. The project has been completed.
- **VT Halter Marine** is a \$7 million expansion project, including a marine fabrication building adding 182 jobs to the county.
- **Zachary Holdings** purchased a D&Z Atlantic Fabrication Facility in Moss Point in September 2012. The facility would have been closed otherwise. Zachary retained all 65 employees and completed a total upgrade of the facility.
- **Northrop Grumman (NG) Aerospace Unmanned Systems Center** - In December 2013, NG Aerospace Unmanned Systems Center in Moss Point held a “jig-load” ceremony (first piece of the aircraft) of the first NATO AGS (Alliance Ground Surveillance) unmanned aircraft at their state-of-the-art facility.
- **Signet Maritime** announced in January 2013 its expansion of shipbuilding & repair operations at the Port of Pascagoula. The expansion represents a corporate investment of \$3.6 million and will create 50 additional jobs.
- **Huntington-Ingalls Industries** landed contracts for \$2.8 billion, with work for the Navy and the Coast Guard.

Numerous financial institutions, mortgage banking companies, and credit unions serve the Jackson County AA; however, First Federal is a leading lender in the market. As of June 30, 2013, the institution represented 11.5% of the total market share of loans originated or purchased during 2012.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

As of September 30, 2013, First Federal’s quarterly average loan-to-deposit (LTD) ratio of approximately 120.5% is excellent relative to the bank’s size, competition, and financial condition.

During the 15 quarters since the previous CRA examination, the bank’s LTD ratio ranged from a low of 114.0% to a high of 124.7%. As shown in Table 2, First Federal’s overall LTD ratio of 120.5% exceeds similarly situated financial institutions, which had a quarterly average LTD ratio of 72.5% during the same time-period.

Table 2, Loan-to-Deposit Ratios of Select Competitors		
Institution	Assets (000s) (as of 09/30/13)	Average LTD Ratio
First Federal Savings & Loan Association	\$274,000	120.5%
Merchants & Marine Bank	582,015	46.3%
Peoples Bank	792,496	83.0%
Community Bank	603,563	84.3%
Charter Bank	112,316	82.1%
Hancock Bank	6,606,442	73.2%
Century Bank	252,755	67.8%
Bank of Wiggins	186,865	71.0%

Source: FFIEC Uniform Bank Performance Reports

Lending in Assessment Area

The majority of loans originated by the institution during the review period were extended to borrowers within its AA.

Table 3 denotes the distribution of First Federal's primary loan product, between January 1, 2011 and September 30, 2013. As noted, the majority (77.2%) of the institution's loans were made within its AA:

Table 3 - Lending in Assessment Area										
All Loan Originations	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
12-months ended 12/31/11	255	84.44	47	15.56	302	32,580	48.05	35,229	51.95	67,809
21-months ended 9/30/13	411	73.26	150	26.74	561	52,324	67.74	24,917	32.26	77,241
Overall Totals	666	77.17	197	22.83	863	84,904	58.53	60,146	41.47	145,050

Source: HMDA Data 2012 and 9/2013, Loan Samples

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Lending to borrowers of different income levels is reasonable. While lending to both low-income and moderate-income families was lower than the bank's AA HMDA Peers for 2011, the bank's percentages of lending to low- and moderate-income families improved for the 21-month period, ended September 30, 2013.

First Federal does not offer a separate "Home Improvement" product. During the review period, the institution reclassified some of its HMDA loans based on purpose codes. The purpose codes matched the definition of a home improvement loan; subsequently,

the institution's home improvement category increased. As of September 30, 2013, First Federal only maintained or reclassified 51 home improvement loans (4.5% of total assets), of its entire mortgage loan portfolio.

Tables 4a and 4b represent First Federal's total loans originated for a 33-month period, ended September 30, 2013 (within its AA) to borrowers of various income levels:

Table 4a - Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of HMDA Peer Loans	% of Bank Loans	% of HMDA Peer Loans	% of Bank Loans	% of HMDA Peer Loans	% of Bank Loans	% of HMDA Peer Loans	% of Bank Loans
Home Purchase	8.04	6.49	26.15	14.29	26.06	23.38	39.75	55.84
Home Improvement	16.23	0.00	27.17	16.67	25.28	33.33	31.32	50.00
Home Refinance	5.70	6.06	15.86	10.30	21.41	20.61	57.03	63.03

Source: 2011 HMDA data and 2011 HMDA aggregate data

Table 4b - Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of HMDA Peer Loans	% of Bank Loans	% of HMDA Peer Loans	% of Bank Loans	% of HMDA Peer Loans	% of Bank Loans	% of HMDA Peer Loans	% of Bank Loans
Home Purchase	7.54	9.20	24.10	17.18	27.96	20.86	40.40	52.76
Home Improvement	18.83	8.70	24.27	17.39	25.94	8.70	30.96	65.22
Home Refinance	6.61	7.04	13.28	15.02	22.84	21.13	57.27	56.81

Source: 21-month period, ended 9/30/13 HMDA data and 2012 HMDA aggregate data

While the gulf coast is recovering from the aftermath of Hurricane Katrina, the area suffers from high property values (post-Katrina). For example, a low-income individual would be able to qualify for a house whose selling price is \$100,000; a moderate-income individual would be able to qualify for a house whose selling price is \$160,000. If the current average selling price of houses located in the AA were \$169,000 (according to the website Zillow.com as of 2012 and 2013), a low- and or moderate-income borrower would not be able to purchase a home. The availability and very high cost of homeowners and flood insurance (since the storm), further compounds the problem.

Geographic Distribution of Loans

The institution’s geographic distribution of loans, especially in low- and moderate-income census tracts exceeds that of other HMDA lenders and is deemed good.

Tables 5a (2011) and 5b (21-month period, ended September 30, 2013) show First Federal’s geographic distribution compared to peer:

Table 5a - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of HMDA Peer Loans	% of Bank Loans	% of HMDA Peer Loans	% of Bank Loans	% of HMDA Peer Loans	% of Bank Loans	% of HMDA Peer Loans	% of Bank Loans
Home Purchase	0.00	0.00	3.93	12.82	74.24	69.23	21.83	17.95
Home Improvement	0.00	0.00	16.31	25.00	69.86	58.33	13.83	16.67
Home Refinance	0.18	0.61	5.52	6.67	70.80	87.27	23.50	5.45

Source: 2011 HMDA data and 2011 HMDA aggregate data

Table 5b - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of HMDA Peer Loans	% of Bank Loans	% of HMDA Peer Loans	% of Bank Loans	% of HMDA Peer Loans	% of Bank Loans	% of HMDA Peer Loans	% of Bank Loans
Home Purchase	0.32	1.22	4.19	9.76	58.47	57.32	37.03	31.71
Home Improvement	1.18	0.00	13.73	29.17	54.12	37.50	30.98	33.33
Home Refinance	0.14	0.45	4.71	10.41	58.57	63.35	36.58	25.79

Source: 21-month period, ended 9/30/13 HMDA data and 2012 HMDA aggregate data

Since the previous examination, First Federal invested approximately \$115,000 in a capital improvement obligation bond with the city of Moss Point, MS. The purpose of the bond was to establish sanitary, storm, drainage and/or sewerage system improvements to refurbish the city of Moss Point, MS. The city of Moss Point (within the institution’s AA) includes six census tracts, of which three are moderate-income. This investment allows First Federal to assist in improving the utility and drainage systems of all businesses and residents of Moss Point.

Fair Lending or Other Illegal Credit Practices Review

The OCC’s September 2013 onsite examination included an assessment of fair lending risk present in the institution’s operations. The OCC found no evidence of discrimination or other illegal practices that would be inconsistent with helping to meet community credit needs.